Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

BY E-MAIL

May 8, 2012

Board Secretary
Ontario Energy Board
2300 Yonge Street, Ste. 2701
Toronto ON M4P 1E4

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Hydro 2000 Inc.
2012 Distribution Rate Application
Board Staff Submission
Board File No. EB-2011-0326

Please find attached Board staff submission in the above proceeding.

Sincerely,

Original Signed By

Silvan Cheung
Advisor – Applications & Regulatory Audit

Encl.

2012 ELECTRICITY DISTRIBUTION RATES

Hydro 2000 Inc.

EB-2011-0326

STAFF SUBMISSION

May 8, 2012

INTRODUCTION

Hydro 2000 Inc. (“Hydro 2000” or the “Applicant”) is a licensed electricity distributor serving the Township of Alfred and Plantagenet, which has a population of approximately 9,600 (2010). Hydro 2000 filed its 2012 rebasing application (the “Application”) on October 12, 2011. Hydro 2000 requested approval of its proposed distribution rates and other charges effective May 1, 2012. The Application was based on a future test year cost of service methodology.

The Vulnerable Energy Consumers’ Coalition (“VECC”) was granted intervenor status. No letters of comment were received. The proceeding has been conducted through written discovery, with written interrogatories.

This submission reflects observations and concerns which arise from Board staff’s review of the pre-filed evidence and interrogatory responses provided by Hydro 2000, and are intended to assist the Board in evaluating Hydro 2000’s application and in setting just and reasonable rates.

THE APPLICATION

In its original application, Hydro 2000 requested a service revenue requirement of $583,437 (or a base revenue requirement of $563,134[1]). In response to a VECC interrogatory[2] filed on February 16, 2012, Hydro 2000 revised its service revenue requirement to $567,641. On April 10, 2012, Hydro 2000 filed another update to its responses to interrogatories and its service revenue requirement was adjusted to $566,768 (or a base revenue requirement of $546,464). Board staff has drafted this submission with the understanding that this latest number is the final requested service revenue requirement for 2012 rates. The proposed rates are set to recover a revenue deficiency of $232,163. Board staff notes that the 2008 Board approved base service revenue requirement was approximately $300,000. The following is a breakdown of Hydro 2000’s 2012 test year revenue requirement from its April 10, 2012 updated evidence:

[1] Base revenue requirement is the service requirement less revenue offset of $20,303.
[2] Response to VECC interrogatory # 21

Table 1
2012 Test Year Revenue Requirement

	As Filed October 12, 2011	As Updated April 10, 2012
OM&A Expenses	$434,834	$428,066
Amortization/Depreciation	$ 76,703	$ 76,703
Income Taxes (Grossed up)	$ 5,328	$ 1,290
Return		
Deemed Interest Expense	$ 29,652	$ 24,993
Return on Deemed Equity	$ 36,920	$ 35,716
Service Revenue Requirement	$583,437	$566,768
Revenue Offsets	$ 20,303	$ 20,303
Base Revenue Requirement	$563,134	$546,464

LOAD FORECAST

Exhibit 3 of the Application discusses how the load forecast and customer counts are developed. The kWh forecast and the kW forecast for appropriate classes is presented by customer class. Hydro 2000's weather normalized load forecast is developed using a multifactor regression model that incorporates historical load, weather and employment data for the Ottawa region.

Customer Forecast

Background

Hydro 2000 is seeking Board approval for a test year customer forecast of 1,589 customers/connections. The test year forecast is approximately 1.7% higher (or 27 customers/connections) than the 2010 actual. The forecast for the Residential class is derived by applying a 1.3% annual growth rate for the bridge and test years. Hydro 2000 stated that the growth rate is consistent with the population growth projections for the Ontario municipalities adjacent to Ottawa, under the areas of Prescott and Russell, which was prepared by the City of Ottawa.[3] For GS < 50 kW, GS > 50 to 4,999 kW, Street

[3] Exh.3/ Tab 1/ Sch.2/Pg.7

Lighting, and Unmetered Scattered Load ("USL") classes, Hydro 2000 expects that the customer/connection numbers will remain the same as in 2010. The following table summarizes customers/connections forecast for 2012:

Table 2

Customer Count Forecast 2012 Test Year Customer Count Forecast (Exhibit 3/ Tab 1/ Schedule 2/ Page 8/ Table 11)	
Rate Classes	**No. of Customers/Connections**
Residential	1,061
GS < 50 kW	142
GS > 50 to 4,999 kW	12
Street Lighting	368
Unmetered Scattered Load	6
Total	1,589

Discussion and Submission

Board staff notes that Hydro 2000's customer forecast shows a 0.9% annual average growth from the 2010 Actual Year to 2012 Test Year. This is slightly higher than the 0.8% average annual customer growth experienced during the 2008 to 2010 period. Board staff has no concerns with the 2012 customer forecast as proposed by Hydro 2000.

Load Forecast

Background

Hydro 2000 is seeking Board approval for a test year forecast of 24,453,194 kWh or 24.45 GWh. This represents a 5.6% increase from 2010 actual.

To develop its load forecast, Hydro 2000 used a multifactor regression model to determine the relationship between historical load with weather data and employment data for the Ottawa region. Hydro 2000 presented the comparison of the results of the model with actual system load for the period from 2007 to 2010. This evidence indicates that the absolute percentage error between the model estimate and actual load ranged from 0.20% to 1.46% over the regression range. The mean absolute percentage error of the annual estimates for the period from 2007 to 2010 is 0.74%. In response to a Board staff interrogatory,[4] Hydro 2000 confirmed that no adjustment for CDM was included in its 2012 load forecast.

The following were used as the inputs for the model to generate the weather-normalized system purchases for 2011 and 2012:

- 10 year average (2001 – 2010) Heating Degree Days ("HDD") and Cooling Degree Days ("CDD"), Ottawa Macdonald-Cartier Int'l Airport;
- Employment level based on the average of 4 major chartered banks' (BMO, RBC, Scotia, and TD) most recent[5] employment growth forecast for Ontario.

In order to allocate the weather-normalized system purchases to each class, Hydro 2000 first calculated the share of each class' actual consumption of the actual system purchases for the 2007 to 2010 period. The average share for each class was then applied to the weather-normalized system purchases to calculate the class-specific forecast for Residential, GS < 50 kW and GS > 50 to 4,999 kW. The forecast for Street Lighting and Unmetered Scattered Load are based on their 2010 actual consumption. The class-specific forecasts are summarized in the following table:

Table 3

2012 Test Year Load Forecast (Exhibit 3/ Tab 1/ Schedule 2/ Page 7/ Table 10)	
Rate Classes	**kWh**
Residential	14,703,667
GS < 50 kW	4,712,132
GS > 50 to 4,999 kW	4,672,203
Street Lighting	346,706
Unmetered Scattered Load	18,486
Total	24,453,194

Discussion and Submission

Hydro 2000 is forecasting a 2.8% average annual load growth from the 2010 Actual Year to the 2012 Normalized Test Year. Board staff has no concerns with the proposed test year load forecast for the following reasons:

[4] Response to Board staff interrogatory # 5(c)
[5] Exh.3/ Tab 1/ Sch.2/Pg.4

1. Weather Forecast: Board staff notes that the HDD forecast, that is used as an input variable is expected to increase in the test year. Board staff notes that the actual HDD for 2010 was 3,978 HDDs, compared to the test year weather forecast of 4,375 HDDs (based on a 10 year average), which is approximately 10% higher.

2. Employment: Board staff notes that the Employment forecast that is used as an input variable in the forecast equation is predicting an increase in employment of 1.7% in 2011 and a further increase of 1.5% in 2012.

In regards to the CDM adjustment, Board staff is of the view that it is generally expected that distributors include a CDM component in their load forecast to ensure that its customers are realizing the true effects of conservation at the earliest date possible. This practice also allows the distributor to minimize the variance between forecasted revenue losses and actual revenue losses, which should minimize any application related to the lost revenue variance mechanism. Board staff has generally witnessed distributors include 20% of their CDM targets into the load forecast when rebasing in 2012. Board staff submits it would be appropriate for Hydro 2000 to include 0.208 GWh of CDM activity in its load forecast.

Board staff notes that while Hydro 2000 will be able to capture the variance between the forecasted CDM impacts and the actual, verified lost revenues realized as a result of CDM activities, as outlined in the Board's CDM Guidelines,[6] the variance between forecasted and actual CDM impacts should be minimized to the greatest extent possible.

OPERATIONS, MAINTENANCE AND ADMINISTRATION ("OM&A")

Background

For the 2012 test year, Hydro 2000 is requesting Board approval of $428,066 in OM&A expenses excluding taxes and amortization expenses. This represents a 22.8% increase over the 2011 Bridge year and a 44.0% increase over 2010 actual. The following table summarizes Hydro 2000's OM&A expenses by year.

[6] *Guidelines for Electricity Distributor Conservation and Demand Management*, EB-2012-0003, April 26, 2012.

Table 4

	2008 Approved	2008 Actual	2009 Actual	2010 Actual	2011 Bridge	2012 Test (updated)
Operation	$738	$463	$10,097	$876	$12,225	$12,775
Maintenance	$5,717	$8,876	$9,184	$4,446	$2,050	$2,050
Billing and Collecting	$94,565	$89,470	$94,140	$102,373	$121,596	$127,734
Community Relations	$0	$0	$0	$0	$700	$717
Administrative and General	$161,631	$145,394	$154,422	$189,529	$211,896	$284,790
Total OM&A	$262,651	$244,203	$267,843	$297,226	$348,467	$428,066
Year to year % change			*9.7%*	*11.0%*	*17.2%*	*22.8%*
% change as compared to 2008 Approved		*-7.0%*	*2.0%*	*13.2%*	*32.7%*	*63.0%*

Based on the evidence on the record, Board staff has identified the major reasons for the increase in the following table.

Table 5

Increase in OM&A Between 2010, 2011 and 2012			
	2010 Actual	2011 Bridge Year	2012 Test Year
Filing costs for Rate Applications			$ 45,000
Transition to IFRS			$ 15,000
Increased costs for staff compensation	$ 8,000	$ 5,000	$ 3,000
New part-time employee		$ 13,000	
Travelling expense related to training		$ 18,000*	
Moving Expenses		$ 8,000*	
Deloitte review	$ 30,000*		
Smart Meter ongoing costs (P-Sync operator)			$ 7,000
RRR reporting			$ 5,000
Net Misc. increase/(decrease)	($ 8,617)	$ 7,241	$ 4,599
Total increase	$ 29,383	$ 51,241	$ 79,599

* One-time costs

Discussion and Submission

Filing costs for Rate Applications

In its original application, Hydro 2000 forecasted that it would incur $140,000 related to the 2012 cost of service application and proposed to amortize $35,000 annually in OM&A over a 4 year period. In response to a VECC interrogatory,[7] Hydro 2000 revised its costs to reflect the increased use of external consultants to accommodate the lack of internal resources. Hydro 2000 also provided a breakdown identifying the areas of the increase. The cost for the rate filing was revised to $180,000 and the Applicant proposed to amortize $45,000 annually in OM&A.

Board staff submits that the revised costs are high and that Hydro 2000 has not provided evidence to support the prudence of the costs for the items identified in its application.[8] For example, Hydro 2000 has claimed a cost of $63,000 for consultants, yet there is no indication as to whether it explored other options. However Board staff recognizes that Hydro 2000 is a very small utility with two full time employees and one part-time employee. As such, its resources for regulatory matters is limited and it relies heavily upon consulting services for regulatory and accounting matters. While the Board expressed concerns with the overall size of the regulatory expense in the previous cost of service application, the Board also recognized that a utility with few internal resources must rely on consulting services.[9]

Transition to IFRS

In its pre-filed evidence, Hydro 2000 included $15,000 in 2012 OM&A for conversion to IFRS. In its application, Hydro 2000 stated that it has no qualified internal resources and would require an external consultant to undertake this project. The total estimated cost to complete the transition to IFRS would be $60,000 and the applicant amortized this cost over 4 years.

Board staff submits that the $60,000 expense related to the transition to IFRS is reasonable as it is the same amount approved by the Board for Renfrew Hydro Inc. in the latter’s 2010 cost of service application.[10]

---

[7] Response to VECC interrogatory # 12
[8] Exhibit 4/ Tab 2/ Schedule 3
[9] Decision on Cooperative Hydro Emburn (EB-2009-0132), p.11
[10] Decision on Renfrew Hydro Inc. (EB-2009-0146), p.27

Compensation

As shown in Table 5, Hydro 2000's staff compensation increases are driven by two items: $5,000 per year for existing employees and a new part-time employee hired in 2011 which increased the costs by an additional $13,000. Hydro 2000 explained that in 2007, Hydro 2000 and the Alfred Plantagenet Township started a review of salaries for management and administrative staff by comparing with utilities of a similar size and with local executives. As a result of the review, it was determined that the General Manager's salary was far below those of the comparators, and it was decided that adjustments would be made to management salaries. The total adjustment would be $16,000 over a 4 year period. Hydro 2000 indicated that with the increased requirements associated with conservation and demand side management and work associated with implementation of Time of Use billing, a part-time employee is required. Board staff submits that the Applicant has provided adequate information in support of its compensation proposal.

Overall Increase

As shown in Table 4, the proposed 2012 OM&A represents a 63.0% increase as compared to 2008 Board Approved OM&A. This represents an annual average increase of approximately 16%. As compared to 2008 Actual OM&A, the proposed 2012 OM&A shows a 75% increase and this represents an annual average increase of approximately 19%. However, in 2010, the OM&A amount represents an increase of 13.1% as compared to 2008 Board Approved OM&A. On an annual basis, this represents only an average increase of 6.6%.

Board staff has concerns with the level of the overall proposed increase in the 2012 Test year, in particular the treatment of historic one-time costs. In OM&A, cost items are usually classified as one-time or ongoing. One-time costs are incurred in a particular year and it is expected that the cost would not be incurred in the following year. In such cases, the costs for the following year would likely be reduced. However unlike the one-time costs, the ongoing costs would continuously be incurred in OM&A.

In 2010, Hydro 2000 incurred a one-time cost of $30,000[11] for hiring a consultant to review the balances of the deferral and variance accounts. And in 2011, Hydro 2000

[11] Response to VECC interrogatory #14

incurred a one-time cost[12] of $8,000 for moving expenses for the office relocation and $18,000 for travelling expenses related to training. Since the evidence did not indicate that there was a reduction of the above one-time costs, Board staff cautions that these costs may be embedded in the proposed 2012 OM&A. Board staff submits that Hydro 2000 should confirm this in its reply and if confirmed should remove the costs from the proposed 2012 OM&A.

If Hydro 2000's OM&A is reduced for the items identified by Board staff, the 2012 OM&A will represent a 42% increase as compared to 2008 Board Approved, which also represents approximately an 11% annual increase from 2008. The increase of the reduced 2012 OM&A is still higher than Hydro 2000's historical annual increase as compared to the 2008 Board approved. Nevertheless, Board staff submits that with the ongoing increases as identified in Table 5, Hydro 2000 has adequately supported its proposed cost levels for the test year.

Low Income Energy Assistance Program ("LEAP")

In March 2009, the Board issued its *Report of the Board: Low Income Energy Assistance Program*[13] (the "LEAP Report") which describes the funding level of Emergency Financial Assistance. As set out in the LEAP Report, the Board has determined that the greater of 0.12% of a distributor's Board-approved distribution revenue requirement, or $2,000, is a reasonable commitment by all distributors to Emergency Financial Assistance.

The Board provided further details on rate recovery of Emergency Financial Assistance in its letter issued on October 20, 2010, which clarifies that the LEAP amount proposed would be adjusted in distributors' draft rate orders to account for any changes resulting from the Board's decision on the final service revenue requirement.

Hydro 2000 stated that it has included the amount of $2,000 in its application and this amount would be used to support the low-income energy consumers. Board staff has no concerns with this proposal.

[12] Response to VECC interrogatory #14
[13] Report of the Board: Low-Income Energy Assistance Program (EB-2008-0150)

RATE BASE

Background

Hydro 2000 is requesting approval of $963,469 for the 2012 rate base. This amount represents a 37.1% increase from Hydro 2000's 2010 actual and a 31.1% increase from its 2008 approved. Changes in rate base from 2008 to 2012 are shown in following table.

Table 6

	2008 Approved	2008 Actual	2009 Actual	2010 Actual	2011 Bridge	2012 Test
Rate Base	$735,075	$771,214	$779,141	$731,600	$840,495	$963,469
% change as compared to prior column		4.9%	1.0%	-6.1%	14.9%	14.6%

Capital Expenditures

Background

Hydro 2000 is projecting 2012 capital expenditures of $56,000 and this expenditure excludes smart meter related costs.

Discussion and Submission

Table 7 lists the percentage change in the capital expenditures from 2008 to the 2012 test year, excluding smart meter capital expenditures.

Table 7

	2008 Actual	2009 Actual	2010 Actual	2011 Bridge	2012 Test
Capital Expenditures (excl. smart meters)	$84,557	$79,527	$62,709	$80,936	$56,000
% change as compared to prior year		-6.0%	-21.2%	29.1%	-30.8%

Board staff observes that the capital expenditures are stable for a small utility. Board staff has no concerns with respect to Hydro 2000's capital expenditures with the exception of smart meters expenditures which are discussed separately in this submission.

Green Energy Act Plan (GEA Plan)

In its application, Hydro 2000 requested an exemption from filing a GEA Plan.[14] Hydro 2000 stated that it requires more knowledge, experience and expertise, before it can invest the necessary resources to complete and file such a plan.[15] Hydro 2000 proposed to record incremental costs in the appropriate Board-approved deferral accounts, when the costs arise.

With respect to renewable connection applications, Hydro 2000 provided the following update in response to a Board staff interrogatory[16]:

> Hydro 2000 has received 9 micro-FIT applications to date.
> - 3 applications were discontinued by the customers.
> - 1 application is expected to receive a contract from OPA shortly
> - 2 applications have received a connection offer
> - 3 applications require action from the customers.

Hydro 2000 has also highlighted that since it is fully embedded in Hydro One's service territory, Hydro 2000 requires permission and approval for connection requests it receives. Citing this reason, Hydro 2000 has stressed that it "cannot effectively plan ahead for Micro-fit generation".[17] In its response to Board staff interrogatory,[18] Hydro 2000 clarifies that it did not seek an exemption but that it requested approval to file a GEA Plan at another time.

[14] Exh1/Tab1/Sch.4/p.1
[15] Response to Board staff interrogatory # 13 (c)
[16] Response to Board staff interrogatory # 13 (a)
[17] Response to Board staff interrogatory # 13 (d)
[18] Response to Board staff interrogatory # 13 (c)

Discussion and Submission

Board staff notes that the *Filing Requirements: Distribution System Plans – Filing under Deemed Conditions of Licence* (EB-2009-0397) stem from Section 70 of the OEB Act which creates deemed licence conditions for all licensed electricity distributors and transmitters. Under the OEB Act, a distributor is required to prepare and file a GEA Plan with the Board.

The *Filing Requirements* contain an exemption provision,[19] but also permit, subject to Board approval, the filing of a GEA Plan at a time other than the cost of service rate application.

Board staff recognizes that Hydro 2000 is a small utility with a very limited workforce, and may in fact benefit from additional time to gain knowledge, experience, and possibly increased cost-efficiency as a result of harmonizing the GEA Plan activities that it is undertaking or might elect to undertake in the future with other utilities. Board staff also recognizes that additional connection applications may materialize in the future, and it may be more efficient for Hydro 2000 to update the Board on a larger set of initiatives all at once.

As Hydro 2000 is embedded in Hydro One's service territory, Hydro 2000 expressed concerns in interrogatory responses relating to its ability to provide suitable documentation. Board staff notes that Hydro 2000 should engage in appropriate discussions with the host distributor. In this regard, page 9 of the *Filing Requirements* states the following with respect to consultations with affected distributors and transmitters:

> Distributors must provide the following information as part of their GEA Plan filing:
>
> - A description of the consultation, including planning meetings, undertaken with affected any distributors and transmitters; and
> - A description of how feedback received from any affected distributors and transmitters was reflected in the GEA Plan as filed with the Board (this

[19] Filing Requirements: Distribution System Plans Filing under Deemed Conditions of Licence (EB-2009-0397), p.5

could include correspondence between the distributor and the affected distributors and transmitter).

For these reasons, Board staff submits that Hydro 2000 should be permitted to postpone the filing of its GEA Plan until a future application and not later that with Hydro 2000's next cost of service application.

COST OF CAPITAL

Background

In Exhibit 5 of its Application, Hydro 2000 proposed its test year Cost of Capital. This is summarized in the following table.

Table 8

Cost of Capital Parameter	**Hydro 2000's Proposal**
Capital Structure	60.0% debt (composed of 56.0% long-term debt and 4.0% short-term debt) and 40.0% equity
Short-Term Debt	2.46%
Long-Term Debt	5.32%
Return on Equity (ROE)	9.58%
Weighted Average Cost of Capital	6.91%

In response to a Board staff interrogatory,[20] Hydro 2000 confirmed that the short-term and long-term debt rate and the ROE will be updated based on the new parameters for May 1, 2012.

On March 2, 2012, the Board issued a letter identifying the updated Cost of Capital parameters to be used in the 2012 rate year cost of service applications for rates effective May 1, 2012. These are summarized in the following table:

[20] Response to Board staff interrogatory # 14

Table 9

Cost of Capital Parameter	Updated Value for 2012 Cost of Service Applications for rates effective May 1, 2012
Return on Equity (ROE)	9.12%
Deemed Long -Term Debt rate	4.41%
Deemed Short-Term Debt rate	2.08%

Discussion and Submission

Board staff has no concerns with Hydro 2000's treatment of the cost of capital components. Board staff submits that Hydro 2000 should update its rates to reflect the cost of capital parameters issued on March 2, 2012, in filing its draft Rate Order.

COST ALLOCATION AND RATE DESIGN

Cost Allocation

Hydro 2000 filed its cost allocation study in accordance with the filing requirements. Board staff will comment on only one aspect of the study, the weighting factors for Billing and Collecting. The weighting factors used by Hydro 2000 are shown in the following table, along with the default factors used in previous years by Hydro 2000 and most other distributors. Hydro 2000's weighting factors are quite different from those used previously by Hydro 2000, and with its cost structure these weighting factors have a significant effect on the class revenue requirements and revenue-to-cost ratios.

Table 10

Billing & Collecting	Residential	GS<50 kW	GS 50 to 4,999 kW	Street Lighting	Unmetered Scattered Load
2012 Proposed Weighting factors	1.0	0.53	0.53	0.53	0.53
Default Weighting factors	1.0	2.0	7.0	5.0	1.0

Discussion and Submission

In the Board Report *Review of Electricity Distribution Cost Allocation Policy* (EB-2010-0219), the Board states:

> The Board is of the view that default weighting factors should be utilized only in exceptional circumstances…...
>
> Default values and the basis on which they were derived will be included in the documentation; however, any distributor that proposes to use those default values will be required to demonstrate that they are appropriate given their specific circumstances.[21]

Hydro 2000 has followed the Board's requirement and provided its own weighting factors for Services and for Billing and Collecting. The change in weighting factors appears to have an impact on the revenue-to-cost ratios.

In its response to a Board staff interrogatory,[22] Hydro 2000 explained that the reason for the increase in the Collecting component of its Billing and Collecting weighting for the Residential class is that the billing clerk needs to spend more time on Residential customers who pay their bills directly at Hydro 2000's office. For the Billing component, the operation is done by a third party at a uniform cost regardless of the customer class.[23] With this explanation, Board staff concurs that the factors used by Hydro 2000 are appropriate.

Revenue-to-Cost Ratios

Background

Hydro 2000 proposes to re-balance its class revenues as a result of its cost allocation results. The revenue-to-cost ratios of both General Service classes are above the Board's policy range with the current rates, and the residential class is the only one whose ratio is less than 100%. Compared to the current rate structure, residential rates will increase more than other classes, and both General Service classes will increase less than other classes.

[21] Report of the Board: Review of Electricity Distribution Cost Allocation Policy (EB-2010-0219), dated March 31, 2011, page 26.
[22] Response to Board staff interrogatory # 15
[23] Response to Board staff interrogatory # 15 (a)

The following table provides Hydro 2000's 2008, current and proposed revenue-to-cost ratios and the Board's target ranges, as established in the Board's *Review of Electricity Distribution Cost Allocation Policy EB-2010-0219*.

Table 11
Revenue to Cost Ratio[24]

Customer Class	Column 1 2008 Approved Ratios	Column 2 Current Ratios	Column 3 Proposed Ratios for Test Year	Column 4 Board Target Range
Residential	104.2%	79.6%	85.0%	85% - 115%
GS < 50 kW	100.0%	189.1%	160.0%	80% - 120%
GS > 50 to 4,999 kW	100.0%	192.1%	180.0%	80% - 120%
Street Lighting	71.8%	101.2%	110.0%	70% - 120%
Unmetered Scattered Load	27.9%	103.1%	103.0%	80% - 120%

Discussion and Submission

Board staff has no concerns on the proposed revenue-to-cost ratios proposed by Hydro 2000.

As indicated in column 2 of the above table, Hydro 2000 currently has three classes that have the revenue-to-cost ratios outside the Board's target ranges listed in column 4. Hydro 2000 proposed to move the revenue-to-cost ratio for Residential class to 85%, the floor of the Board target range. The GS < 50 kW and GS > 50 to 4,999 kW classes are currently above the target range and Hydro 2000 proposed to move these classes to the ceiling of the respective target ranges over a three year period. To compensate for the lower revenue from the GS < 50 kW and GS > 50 to 4,999 kW class, the revenue-to-cost ratio for Residential class will be increased to 95% by 2014. The following table illustrates the proposal.

[24] Exh7/Tab1/ Sch1/ 2012 Cost Allocation Study, p.11, Exh7/Tab2/ Sch1, p. 1

Table 12
Proposed Changes to Revenue-to-Cost Ratio[25]

Customer Class	2011	2012	2013	2014
Residential	85%	85%	90%	95%
GS < 50 kW	189%	160%	140%	120%
GS > 50 to 4,999 kW	192%	180%	160%	120%

Monthly Service Charges ("MSC")

Background

Hydro 2000's current and proposed monthly service charges are presented in the table below:

Table 13

	Monthly Service Charges	
Rate Classes	**Current**	**Proposed**
Residential	$8.53	$12.87
GS < 50 kW	$24.61	$29.50
GS > 50 to 4,999 kW	$120.73	$120.73
Street Lighting	$0.05	$1.16
Unmetered Scattered Load	$12.31	$14.75

In its Application, Hydro 2000 explained that maintaining the same fixed/variable proportions would cause the proposed MSC for the GS < 50 kW class to exceed the ceiling of the MSC as indicated in the cost allocation model. And for the Residential and USL classes, maintaining the same fixed/variable proportions would also cause MSC increases of approximately 93% and 79% respectively as compared to the existing MSC. As such, Hydro 2000 proposed changes to the existing fixed/variable proportions to

[25] Response to VECC interrogatory # 20

minimize the impact to the customer classes. As a result, the MSCs proposed by Hydro 2000 are all below the ceiling, except for the GS > 50 to 4,999 kW class. The MSC for the GS > 50 to 4,999 kW remains unchanged.

Discussion and Submission

Board staff notes that although the proposed MSC for the GS > 50 to 4,999 kW class exceeds the upper bound of the MSC, in past decisions the Board has noted that it will not require utilities to lower the existing MSC if they are above the ceiling.[26] Board staff submits that Hydro 2000's proposal to maintain its MSC for GS > 50 to 4,999 kW class unchanged is reasonable. With respect to the proposed MSC for the remaining classes, since all the MSCs are below the ceiling amount for their respective classes, Board staff has no concerns with the proposed MSC.

Retail Transmission Service Rates ("RTSR")

Background

In its Application, Hydro 2000 stated that based on the past two years of the transmission revenues and costs analysis, the trend indicated that the existing RTSRs would result in over-collection for both Network Service and Connection Service. As such Hydro 2000 proposed to reduce its RTSRs to rectify the over-collection. However, in response to a VECC interrogatory,[27] Hydro 2000 corrected its proposed RTSRs which were calculated by using the Board's RTSR work form. The revised RTSRs represent an approximately 5% increase in network service rate and an approximately 2% increase in connection service rate.

Discussion and Submission

Board staff has examined the revised RSTR work form provided by Hydro 2000 and submits that two adjustments are required. Board staff notes that in its RTSR calculation, Hydro 2000 included rates entitled "Hydro One Sub-Transmission Rate Rider 6A". Staff submits that since this rate rider expired on December 31, 2011[28], this should be excluded from the RTSR calculation. The second adjustment is related to the "RRR Data" worksheet. Board staff notes that the loss factor for Residential, GS < 50 kW and

[26] *Application of Cost Allocation for Electricity Distributors*, November 28, 2007, EB-2007-0667, p.12-13
[27] Response to VECC interrogatory # 22
[28] Rate Order, Hydro One Networks Inc, EB-2009-0096, December 17,2010

Unmetered Scattered Load classes are omitted. Staff submits that application of the loss factors for those classes is required to provide proper adjustments to its RTSRs.

Based on the above submission, staff has recalculated the RTSRs in the following table. Staff invites Hydro 2000 to confirm the following RTSRs in the reply submission.

Table 14

Rate Classes	RTSR Network	RTSR Connection
Residential ($/kWh)	$0.0056	$0.0044
GS < 50 kW ($/kWh)	$0.0051	$0.0044
GS > 50 to 4,999 kW ($/kW)	$2.0933	$1.7491
Unmetered Scattered Load ($/kWh)	$0.0051	$0.0044
Street Lighting ($/kW)	$1.5786	$1.3521

Low Voltage Charges

Background

Hydro 2000 is an embedded distributor of Hydro One Networks Inc. and is subject to Low Voltage ("LV") charges. In response to a Board staff interrogatory,[29] Hydro 2000 corrected its proposed LV costs from $100,429 to $128,226 and stated this is based on actual costs incurred in 2011.

The Applicant allocated the LV costs to each class based on the projected Transmission-Connection revenue for each class. The following LV charges for each class are determined by volumes derived from the 2012 load forecast.

Table 15

Rate Classes	Allocation to classes	Proposed LV Charges
Residential	$78,112	$0.0053/kWh
GS < 50 kW	$25,033	$0.0053/kWh
GS > 50 to 4,999 kW	$23,550	$1.9709/kW
Unmetered Scattered Load	$98	$0.0053/kWh
Street Lighting	$1,473	$1.5235/kW

[29] Response to Board staff interrogatory # 16

Discussion and Submission

In its response to a Board staff interrogatory,[30] Hydro 2000 provided further details to support the proposed LV costs. Board staff has no concerns with the LV costs proposed by the Applicant. Since the proposed LV costs are approximately 23% of the proposed base revenue requirement, staff submits that Hydro 2000 should identify in its reply submission whether it has explored any alternatives that could lead to a reduction of the LV costs in the future and that would benefit Hydro 2000's customers. If not, staff encourages Hydro 2000 to explore this area and report on its findings in the next cost of service application.

Loss Factors

Background

Hydro 2000 is proposing a Total Loss Factor ("TLF") of 1.0772 for secondary metered customers < 5,000 kW. The proposed TLF is based on the average of five historical years 2006 to 2010. Hydro 2000's actual TLF for the 2006 to 2010 period has fluctuated from a low of 1.0675 to a high of 1.1002. The currently approved TLF for secondary metered customers < 5,000 kW is 1.0660.

Discussion and Submission

The proposed TLF for primary and secondary metered customer reflects the increase of the historic data for the period of 2006 to 2010. Board staff notes that the underlying Distribution Loss Factor ("DLF") for the 2006 to 2009 period was in a range between 1.0304 and 1.0378, although the DLF for 2010 was 1.0535. This increase may be an anomaly; however Board staff would have a concern in the future if this increase became persistent. Board staff has no concerns with respect to Hydro 2000's proposed loss factors for 2012, but encourages Hydro 2000 to continue to monitor the condition of the assets[31], and address any persistent increase of the DLF in the next cost of service application by developing and filing a plan to reduce losses.

[30] Response to Board staff interrogatory # 16
[31] Response to Board staff interrogatory # 17

DEFERRAL AND VARIANCE ACCOUNTS

Balances Proposed for Disposition

Background

Hydro 2000 proposed to dispose Group 1 and Group 2 deferral and variance account balances as of December 31, 2010, and interest forecast to April 30, 2012.

The allocation factors used by Hydro 2000 for the volumetric rate rider calculation are in accordance with the EDDVAR report (EB-2008-0046).[32]

The proposed amounts for disposition are presented below:

Table 16

Account #	Account Description	Disposition Amount[33]
1521	Special Purpose Charge Assessment Variance Account	$998
1550	LV Variance Account	($45,088)
1562	Deferred Payments in Lieu of Taxes	($26,060)
1580	RSVA – Wholesale Market Service Charge	($41,667)
1584	RSVA – Retail Transmission Network Charge	($28,583)
1586	RSVA – Retail Transmission Connection Charge	($22,567)
1588 - Pwr	RSVA – Power (excluding Global Adjustment)	($25,428)
1588 - GA	RSVA – Power – Sub account -Global Adjustment	$33,659
1592 - ITC	PILs/Taxes Variance, Sub-account HST/OVAT Input Tax Credit	($198)
	Total Proposed for Disposition	**($154,934)**

The credit balance of $154,934 indicates that this amount is to be refunded to the customers over a two year period.

[32] *Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR)*, EB-2008-0046, July 31, 2009
[33] Exhibit 9, Table 9.2.1, Response to Board staff interrogatory # 30, 31

Hydro 2000's pre-filed evidence[34] also included the balances in the Smart Meter variance accounts. However, those accounts are disposed by other means and are excluded from this section.

Discussion and Submission

Board staff notes that the balances as of December 31, 2010 are consistent with Hydro 2000's RRR filings with the Board (except for account 1562, which is dealt with elsewhere in this submission).

Hydro 2000 has proposed to dispose of its Global Adjustment over one year and the remaining accounts over 2 years. In response to a Board staff interrogatory,[35] Hydro 2000 stated that the reason for not proposing a consistent term for the two rate riders is that Global Adjustment can have a major variance from one year to the other. The remaining deferral and variance accounts are proposed for a two year disposition period for the purpose of rates stability.

Board staff submits that a consistent disposition period should be applied to both rate riders. In response to the Board staff interrogatory,[36] Hydro 2000 has filed the Global Adjustment rate rider calculation based on a 2-year term.

Board staff submits that a two year disposition period is appropriate for Hydro 2000, given that as a percentage of Hydro 2000's total revenue requirement the total amount of $155,000 is high (representing more than 30% of Hydro 2000's revenue requirement).

Board staff submits that when preparing the draft Rate Order, Hydro 2000 should ensure that the approved balances for account 1562 and account 1592 are combined with the remaining deferral and variance account rate riders (except for the balances associated with smart meter costs).

2008 Balances

In the Decision and Order EB-2009-0229 dated April 12, 2010 for Hydro 2000's 2010 IRM application, the Board approved the disposition of the December 31, 2008 balances

---

[34] Exhibit 9, Table 9.2.1
[35] Response to Board staff interrogatory # 28
[36] Response to Board staff interrogatory # 28

and projected interest to April 30, 2010 on an interim basis. Board staff noted that Hydro 2000 did not bring forward to the Board in its 2011 IRM (EB-2010-0089) rate proceeding any adjustments to the 2008 Group 1 account balances as per the Decision and Order in EB-2009-0229, nor did Hydro 2000 provide any explanations for the differences with the RRR filings. The Board was silent on this matter in the 2011 decision. The 2011 decision approved the balances as of December 31, 2009, but did not order a final disposition of the amounts that were disposed in EB-2009-0229 on an interim basis.

In response to a Board staff interrogatory[37] in the current proceeding regarding this issue, Hydro 2000 indicated that the 2008 Group 1 account balances have now been reviewed by Deloitte and Touche, and that no changes are required to be made to the 2008 account balances that were disposed on an interim basis. Hydro 2000 indicated that there is no specific report drafted or issued by Deloitte and Touche in this regard.[38] Board staff notes that the balance originally applied for by Hydro 2000 in EB-2009-0229 was a debit of $171,019 which was subsequently revised to a debit of $85,697, and this is the balances disposed in EB-2009-0229. Board staff submits that the Board may wish to declare the disposition of the 2008 Group 1 account balances final if the Board accepts Hydro 2000's affirmation of the Deloitte and Touche review. In the alternative, Board staff suggests that the Board may wish to continue the 2008 balances on an interim basis and that the Board's Audit group conducts an audit on the 2008 balances.

PAYMENTS IN LIEU OF TAXES - PILS 1562

Background

The PILs evidence filed by Hydro 2000 in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL[39] Excel worksheets and continuity schedules that show the principal and interest amounts in the account 1562 Deferred PILs balance. In the pre-filed evidence, Hydro 2000 applied to refund to customers a credit balance of $13,053 consisting of a principal amount of $9,910 plus related carrying charges of $3,143.

[37] Response to Board staff interrogatory # 27
[38] Response to Board staff interrogatory # 29
[39] SIMPIL is the acronym for spreadsheet implementation model for payments in lieu of taxes

Discussion and Submission

In its response to a Board staff interrogatory,[40] Hydro 2000 modified its models in order to comply with the decision in the combined proceeding.[41] Board staff now understands that Hydro 2000 is applying to refund to customers a credit balance of $26,060 consisting of a principal amount of $19,274 plus related carrying charges of $6,786.

Board staff submits that Hydro 2000 has followed the regulatory guidance and the decisions issued by the Board in determining the amounts in its Account 1562 Deferred PILs evidence to be refunded to its customers.[42] Board staff supports Hydro 2000's proposal as revised.

Smart Meters

Background

Hydro 2000 has installed 1,189 smart meters as of the end of 2010 and this represents 100% of its smart meter deployment. In its original application, Hydro 2000 requested to transfer its smart meters capital costs from its smart meter variance account to rate base and to dispose of its remaining balances without using the smart meter disposition rider ("SMDR"). Subsequently, in response to a Board staff interrogatory,[43] Hydro 2000 chose to use the SMDR to recover its smart meter costs.

Hydro 2000 is requesting:

1. Disposition of all capital and operating costs to the end of 2010;
2. a 24 month smart meter disposition rate rider ("SMDR") of $1.09/month[44] to dispose of the smart meter variance accounts which will recover the difference between the revenue requirement and the actual revenue collected to the end of April 2012;
3. a stranded meter rate rider ("SMRR") of $0.0002/kWh over a 4 year period.

---

[40] Response to Board Staff interrogatory # 31
[41] EB-2008-0381, Decision and Order, June 24, 2011, Settlement Agreement, Issue #4, page 8
[42] Decisions in Combined Proceeding, EB-2008-0381 – August 12, 2011; June 24, 2011; December 23, 2010; December 18, 2009. Staff Discussion Paper, August 20, 2008.
[43] Response to Board staff interrogatory # 20
[44] Response to Board staff interrogatory # 21 (c)

Discussion and Submission

Prudence of Smart Meter Costs

Based on the evidence on the record, Board staff has documented Hydro 2000's per meter costs in the following table:

Table 17

Description	Total Cost	Cost per Meter
Smart Meters and AMI Capital Costs	$193,297	$161.48
Capital Costs Above Minimum	$29,761	$24.86
Total Capital Costs	**$223,058**	**$186,34**
Smart Meters and AMI OM&A Costs	$27,237	$22.75
Number of Smart Meters installed	1,197	
Total Cost per installed Smart Meter		**$209.10**

Source: Exhibit 9/ Tab 3/ Schedule 2/ smart meter model

Board staff observes that the above total per meter costs are reasonable as compared to the costs the Board has seen for the most utilities.[45] Staff notes that the per meter costs documented in the combined proceeding related to Smart Meters (EB-2007-0063) are representative of costs for certain distributors at an early stage of deployment. As such, Board staff takes no issue with Hydro 2000's documented costs for smart meters installed up to 2010. Board staff also notes that the corresponding capital costs have been included in rate base.

Recovery Period of the Smart Meter Disposition Rate Rider

Hydro 2000 proposed a 24 month SMDR of $1.09/month to recover the revenue requirement over the 2009 to 2010 period of smart meters installed up to 2010. The SMDR also takes into account the actual revenue collected to the end of April 2012 through the Smart Meter Funding Adder. The net result is a recovery amount of $31,633 that would be recovered over the May 1, 2012 to April 30, 2014 period.

[45] In Appendix A of the Board's Decision with Reasons EB-2007-0063, issued August 8, 2007, with respect to the combined smart meter proceeding, the Board documented the per meter cost for the 13 applicant utilities then authorized for smart meter deployment. For "urban" distributors for which data was available, the per meter costs ranged from $123.59 to $189.96, while Hydro One Networks' costs were estimated at $479.47. The cost information in the combined smart meter proceeding is informative, but reflects an early stage of smart meter deployment, and so must be used with caution. However, similar patterns and ranges for utilities serving urban areas as those observed in Appendix A of the Decision with Reasons EB-2007-0063 have been observed in more recent cases in which smart meter costs have been considered.

Board staff has reviewed the calculation of the SMDR and has no concerns.

Stranded Meters

In its Smart Meter Guidelines,[46] the Board states:

> It is preferable for the Board to review concurrently a distributor's smart meter and stranded meter costs in the same application where all the required adjustments to the rate base and the revenue requirement are reflected in rates at the same time.[47]

Accordingly, Hydro 2000 provided the net book value of the removed from service stranded meters. Hydro 2000 applied to recover the $18,242 cost through a rate rider over a 4 year period. Staff has no concerns with the proposed amount and the recovery period, however staff notes that the proposed non-class-specific volumetric stranded meter rate rider does not comply with the Board's Smart Meter Guidelines. In the Board's Guideline, it states:

> The distributor should determine and support its proposed allocation, based on the principles of cost causality and practically. The stranded meter NBV should be recovered through rate riders for applicable customer classes. ….. If a distributor has recorded the NBV of the stranded meters by customer class, it should propose class-specific rate riders for each applicable class (Residential, GS < 50kW and any other classes approved by the Board for smart meter deployment). If the NBV is not known on a class-specific basis, a distributor should propose an allocation between the affected metered customer classes and support its proposal.
>
> The charge determinant for the SMRR should be the number of customers as the stranded meter costs are invariant to a customer's demand or consumption.

[46] *Guideline-2011-0001: Smart Meter Funding and Cost Recovery – Final Disposition*, December 15, 2011
[47] Ibid, p. 21-22

> Thus, the stranded meter rate rider should be a monthly charge applicable for a period of time, and may differ between customer rate classes.[48]

Board staff notes that in its evidence[49] Hydro 2000 provided the Net Book Value by class for the stranded meters, as such Hydro 2000 should be able to provide class-specific monthly fixed SMRRs. Board staff has no other concerns with the stranded meter proposal.

LOST REVENUE ADJUSTMENT MECHANISM ("LRAM")

Background

The Board's *Guidelines for Electricity Distributor Conservation and Demand Management* (the "CDM Guidelines") issued on March 28, 2008 outline the information that is required when filing an application for LRAM or SSM recovery.

In its decision on Horizon's application (EB-2009-0192) for LRAM recovery, the Board also noted that distributors should use the most current input assumptions available at the time of the third party review when calculating an LRAM amount.

Hydro 2000 originally sought to recover a total LRAM claim of $13,512.26 to be recovered over a one year period. In response to Board staff interrogatories,[50] Hydro 2000 updated its LRAM claim using the final 2010 OPA program results. Hydro 2000's updated LRAM claim is $13,510.13. The lost revenues include the effect of CDM programs implemented from 2006-2010. Hydro 2000 has requested approval of these savings persisting until April 30, 2012.

Discussion and Submission

<u>2006 to 2010 lost revenues</u>

Hydro 2000 has requested the recovery of an LRAM amount that includes lost revenues for 2006, 2007, 2008, 2009, and 2010 CDM programs from January 1, 2006 to April 30, 2012.

---

[48] Ibid, p.23

[49] Exh2/Tab3/Sch5/p.5

[50] Response to Board staff interrogatory # 19

Board staff notes that Hydro 2000's last load forecast was approved on March 14, 2008 and that Hydro 2000's load forecast used 2004 weather normalized data that did not factor in any conservation activity. Board staff also notes that the Board's CDM Guidelines that include the rules and requirements for LRAM applications was not issued until March 28, 2008. Since Hydro 2000's last load forecast used 2004 weather normalized data and because it was approved prior to the issuance of the Board's CDM Guidelines, Board staff supports the recovery of the requested LRAM amounts in 2006, 2007, 2008, 2009, and 2010.

Board staff notes that this is consistent with what the Board noted in its decision on applications from PUC (EB-2011-0101), PowerStream (EB-2011-0005) and Brantford (EB-2011-0147).

2011 and 2012 lost revenues

Board staff submits that it is premature to consider any lost revenues persisting in 2011 or 2012.

Board staff requests that Hydro 2000 provide an updated LRAM amount and subsequent rate riders that only includes lost revenues from 2006 to 2010 CDM programs from 2006 to 2010.

TRANSITION FROM CANADIAN GENERALLY ACCEPTED ACCOUNT PRINCIPLES ("CGAAP) TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Background

In its application, Hydro 2000 states that its current distribution revenues did not permit Hydro 2000 to convert its financial reporting from CGAAP to IFRS, as such its current application has filed under CGAAP basis. The Board outlined its expectations for those utilities that planned rebasing for 2012 in its letter, *Use of Modified IFRS as a Basis for Filing Cost of Service Applications for 2012 Rates* dated March 15, 2011. In its letter, the Board stated:

> The Board believes that distributors whose rates are being rebased for 2012 should make all reasonable efforts to file test year forecasts for their cost of service applications using modified IFRS.
>
> A distributor for whom preparing a modified IFRS-based application will impose an unreasonable burden may file under CGAAP, but must provide an explanation of this choice as part of its rate application filing. Before filing under CGAAP, a distributor should assess the relative merits of preparing a rate application for 2012 based on modified IFRS versus the need to address the complexities of maintaining additional records in both accounting systems for the length of the IRM period before their next cost of service application.

Discussion and Submission

Board staff notes that Hydro 2000 filed its cost of service application for the 2012 rates under CGAAP. In response to a Board staff interrogatory,[51] Hydro 2000 confirmed that:

- It did not file its 2012 rebasing application under MIFRS because of lack of adequate time and financial resources.
- It will adopt IFRS as of January 1, 2012.
- It will have one-time costs of approximately $60,000 for transition to IFRS.
- It is working with another distributor to hire IFRS specialists to help them with the transition to IFRS.

Board staff notes that Hydro 2000's application filed under CGAAP for the 2012 rate year appears to be reasonable.

Hydro 2000 stated that it would adopt IFRS as at January 1, 2012.[52] On April 30, 2012, the Board issued a letter that provides guidance for all electricity utilities regarding the impact of the decision by the Canadian Accounting Standards Board (the "AcSB") to defer the mandatory changeover to International Financial Reporting Standards ("IFRS") to January 1, 2013. The Board stated that it will not require regulatory accounting and reporting for 2012 to be in Modified IFRS ("MIFRS") if a distributor is not required to adopt IFRS for financial reporting and opts to remain on Canadian Generally Accepted Accounting Principles. The Board further stated that those distributors that have

[51] Response to Board staff interrogatory # 32
[52] Response to Board staff interrogatory # 32(e)

transitioned to IFRS or whose rates are set based on MIFRS are expected to conduct regulatory accounting and reporting for 2012 in MIFRS.

Board staff is unclear if Hydro 2000 plans to take the optional one-year deferral of the mandatory adoption of IFRS to January 1, 2013 for its financial accounting. However, per the Board's letter, Board staff submits that since Hydro 2000 has applied for rates based on IFRS, should this be approved by the Board, Hydro 2000 would be expected to conduct regulatory accounting and reporting for 2012 in MIFRS.

Board staff invites Hydro 2000 to specify its plan regarding the date of IFRS adoption in its reply submission.

- All of which is respectfully submitted -